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FM AMEMBASSY SANTIAGO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4811  
INFO RUEHQT/AMEMBASSY QUITO 2317  
RUCNMR/MERCOSUR COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEAIIA/CIA WASHDC  
RHEHNSC/NSC WASHDC

UNCLAS SANTIAGO 000368

STATE PLEASE PASS TO USTR KATE DUCKWORTH  
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS  
TREASURY FOR BLINDQUIST  
COMMERCE FOR KMANN

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [ECIN](#) [PGOV](#) [PREL](#) [CI](#)

SUBJECT: CHILE: ECONOMIC HIGHLIGHTS MARCH 6-APRIL 17

REFS: SANTIAGO 161 AND PREVIOUS

11. SUMMARY: This continues a series of updates on major developments in Chile's economy. Economic activity fell for the second straight month, contracting by 3.9%. The unemployment rate increased for the third time in a row to 8.5%. Annual inflation fell to 5%, despite a small increase in March's Consumer Price Index, the first after four straight months of negative inflation. The Central Bank cut the key interest rate to 1.75%, a reduction of 650 basis points since the beginning of the year. By April 17, copper prices made significant gains, the Peso rose against the Dollar, and the stock market closed higher. END SUMMARY.

#### Economic Activity Falls For Second Straight Month

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12. On April 6, the Central Bank reported the monthly economic activity indicator (Imacec) contracted by 3.9% in February 2009 compared with the same month in 2008. This follows a contraction of 1.4% in January 2009. The Imacec is regarded as a proxy for GDP growth in Chile, as it includes 90% of the same goods and services used to calculate GDP. In 2008 GDP grew by 3.2% compared with 4.7% in 2007.

#### Unemployment Rate Rises For Third Time In A Row

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13. The National Statistics Institute (INE) reported March 31 that the unemployment rate climbed to 8.5% during December 2008 - February 2009 (from 8% during November 2008 - January 2009). This is the third time in a row the unemployment rate has increased. Unemployment exceeded last year's rate of 7.3% for the same period, surpassed 10% in several of Chile's regions, and reached 8.7% in Santiago.

#### Inflation Shows A Small Increase

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14. On April 7, the INE reported the Consumer Price Index increased in March by 0.4% compared with February. This was the first increase after four consecutive months of negative inflation. However, the CPI's annualized growth rate fell to 5%. The small monthly increase in the CPI was blamed on the rising price of education and alcohol and tobacco products.

#### Cut In Key Interest Rate For Fourth Straight Month

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¶5. The Central Bank cut the key interest rate (monetary policy rate) by 50 basis points bringing it to 1.75% on April 9. Since the beginning of the year, when the monetary policy rate was at 8.25%, the Central Bank has reduced the rate four months in a row, by a total of 650 basis points. The Central Bank emphasizes the cuts are justified based on negative output numbers, increasing unemployment, tightening lending conditions, and continued forecasts for reduced inflation.

#### Business Confidence Rises

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¶6. The Santiago Chamber of Commerce reported April 15 that business confidence rose for the first time since September 2008. The Chamber's monthly Index of Business Expectations of economic conditions in Chile rose from numbers indicating general pessimism to those indicating a neutral outlook.

#### Copper Prices Still Climbing

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¶7. On the London Metals Exchange, copper closed at approximately \$2.14/pound on April 17. The price of copper has risen 27% from its close on March 6, and 62% since the beginning of the year. Copper production at Escondida Mine fell 33% in the first quarter of 2009, compared with 2008. Escondida produces the most amount of copper of any single mine in the world.

#### Chilean Peso Rises Against Dollar

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¶8. On April 17, the observed exchange rate closed at approximately 579 Chilean Pesos to 1 U.S. Dollar (an appreciation of about 4% from the close on March 6). The Peso has appreciated against the Dollar by almost 9% since the beginning of the year.

#### Stock Market Closes Higher

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¶9. The IPSA closed at 2676.79 on April 17, up 13% on the close of March 6. The Index is up almost 13% since the beginning of the year.  
SIMONS